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## Brazil

## Cotton and Products

## Update

## 2004

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**Report Highlights:**

Post forecast production in 2004/05 is lowered 100,000 tons to 1.4 million tons but imports and exports remain unchanged. Imports for 2003/04 are raised to 130,000 tons and exports lowered to 200,000 tons. Meanwhile 2003/04 production is unchanged at 1.25 million tons.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
Brasilia [BR1]  
[BR]

## Cotton PS&amp;D

Brazil							
Cotton							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2002		08/2003		08/2004	MM/YYYY
Area Planted	0	743700	0	1070000	0	1200000	(HECTARES)
Area Harvested	735000	743700	1070000	1070000	1150000	1200000	(HECTARES)
Beginning Stocks	526027	500000	627052	563612	1002631	893612	(MT)
Production	846956	847500	1262814	1250000	1415223	1400000	(MT)
Imports	122580	122580	103420	130000	108863	100000	(MT)
MY Imp. from U.S.	0	0	0	85000	0	70000	(MT)
TOTAL SUPPLY	1495563	1470080	1993286	1943612	2526717	2393612	(MT)
Exports	106468	106468	195954	200000	435453	500000	(MT)
USE Dom. Consumption	783816	800000	816475	850000	849134	870000	(MT)
Loss Dom. Consumption	-21773	0	-21773	0	-21773	0	(MT)
TOTAL Dom. Consumption	762043	800000	794702	850000	827361	870000	(MT)
Ending Stocks	627052	563612	1002631	893612	1263903	1023612	(MT)
TOTAL DISTRIBUTION	1495563	1470080	1993287	1943612	2526717	2393612	(MT)

## Cotton Production

No change is made to the Post production forecast of 2003/04, published in May, of 1.25 million tons but area is raised 70,000 hectares to 1.07 million hectares. CONAB's most recent survey of late June had production forecast at 1.26 million tons, which is an increase over the previous forecast. Growing conditions have been good overall this year with the exception of some yield losses in Parana from drought and excessive rains in the Center-West region, which prevented timely applications of herbicides. Overall production is forecast to increase by about 400,000 tons, or nearly 48 percent over the previous year. The Northeast region, particularly Western Bahia, experienced the largest growth at roughly 110 percent.

Production in 2004/05 is forecast down 100,000 tons from Post's May forecast to 1.4 million tons on 1.2 million hectares (see chart below).

	2002/03	2003/04	Change %	2004/05*	Change %
<b>Area</b> (thousand hectares)	735	1,070	<b>45.6</b>	1,200	<b>12.1</b>
<b>Yield</b> (tons/hectare)	1.152	1.168	<b>1.3</b>	1.16	<b>0</b>
<b>Production</b> (million tons)	.847	1.25	<b>47.6</b>	1.40	<b>12.0</b>

\* Post Forecast

Though CONAB has not yet released its 2004/05 estimate, most in the industry believe production will be up from last year's large crop. International cotton prices have been falling during the past few months due to large forecast crops in the Northern Hemisphere. Domestic prices (see chart below) have also fallen but somewhat less. Weak domestic demand is putting downward pressure on prices and it is expected that the low international prices will have an impact on cotton planting intentions. With FOB export prices next year expected to be more than 10 percent lower than this year, some smaller cotton producers

that have not invested heavily in equipment may opt not to plant cotton this year. However, since profits were extremely large last year, even in comparison to other profitable crops such as soybeans in Mato Grosso and Bahia, the impact may not be as great as many predict.

Producer Seed Cotton Prices in Mato Grosso													
R\$/15 kg													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Avg.
2001	9.6	9.6	9.5	9.4	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.40
2002	9.4	9.5	9.5	9.5	9.5	9.5	11.0	11.3	12.5	14.9	16.0	16.6	11.58
2003	17.4	18.1	18.5	18.5	18.2	17.7	17.5	17.7	17.5	18.2	20.0	20.0	18.27
2004	20.7	21.0	21.2	21.6	20.1	18.6	17.0*						20.53

Source: CONAB

\*Post forecast

Post believes that the extremely healthy profit margins of last year will have more impact on planting decisions than somewhat lower prices. The price chart above illustrates that even though prices are down from the November to March highs, they are still comparable to those of last June and July when many producers made their summer crop planting decisions. With over 400,000 tons of the current crop contracted for export, producers in Mato Grosso are optimistic about the future and much of the 2004/05 crop is also already forward sold. Most producers in Brazil have invested heavily in cotton equipment and are very unlikely to reduce cotton acreage due to the recent drop in prices. Further adding to the optimistic attitude of many Center-West producers toward cotton is the feeling that the decision of the WTO on the cotton case will lead to less competition from the United States in the long-term. However, more astute industry leaders concede that any impact over the ruling will likely not occur for several years.

As the production and area chart above illustrates, Post forecasts a smaller percentage increase in area and production than the previous year due primarily to the very high price of inputs. Furthermore, some cotton producers are concerned over logistical problems moving product to export. Lack of trucks to transport cotton to ports and a shortage of shipping containers are increasing costs.

A key factor determining 2004/05 production will be the amount of established cropland switched to or from other crops. The following is a brief description of what Post sees as key factors in determining substitution with major competing crops.

Soybeans: Post does not forecast a large shift from cotton area to soybeans. However, other than normal crop rotation, it is likely that a small area shift to soybeans will occur due to the current very high cost of agrochemicals and machinery. Producer contacts in Western Bahia report that fertilizer costs have increased 40 percent from last year and in many areas are in short supply. Meanwhile, in other areas contacts indicate that fertilizer costs are so high that sales are down about 50 percent from last year. Part of the increase in fertilizer costs is due to the PIS/COFINS tax, which was placed on all agrochemical imports. The chart below contains the cost of fertilizers in terms of actual traded product. For cotton, the increase from May 2003 to May 2004 was 25 percent but the PIS/CONFINS tax was instituted in early May so prices have increased even more over the past two months. However, a law passed this week will exclude some agricultural inputs from the COFINS tax, thereby reducing the cost of production for cotton by an estimated five percent.

<b>Exchange Ratio of Fertilizers to Selected Crops</b>			
Amount of Commodity needed to purchase 1 ton of fertilizer			
	<b>Cotton</b> 15 kg Bale	<b>Rice</b> 50 Kg Sack	<b>Soybeans</b> 60 Kg Sack
<b>May 03</b>	36.8	19.8	21.4
<b>June 03</b>	42.1	20.2	21.7
<b>July 03</b>	41.8	21.8	22.8
<b>Aug. 03</b>	42.0	21.0	22.3
<b>Sep. 03</b>	41.6	19.7	20.2
<b>Oct. 03</b>	41.1	19.6	17.8
<b>Nov. 03</b>	38.8	21.5	17.1
<b>Dec. 03</b>	39.6	21.1	17.9
<b>Jan. 04</b>	37.3	21.1	17.9
<b>Feb. 04</b>	36.7	23.8	18.4
<b>Mar. 04</b>	36.9	23.4	16.2
<b>Apr. 04</b>	38.4	24.4	17.2
<b>May 04</b>	45.9	24.6	18.1
<b>Increase May 04 - May 03</b>	24.7%	24.2%	-15.4%

Source: DERAL & CONAB

Input costs for soybeans are about 30 percent that of cotton (see chart below) and thus increases in chemical costs should favor soybeans over cotton. However, this input cost advantage for soybeans will be somewhat diminished by increased use of fungicides to combat Asian rust. It is important to note that Post does not foresee large yield losses from Asian rust in the coming year as most farmers have learned their lesson and will apply fungicide early and often next year. It should be noted that currently only a small amount of pirated BT cotton is planted in Brazil. Therefore producers must spray 11 to 14 times per season. Much has been made about falling soybean prices but yet prices remain R\$6 per sack higher than last year at this time.

<b>Cost of Production (R\$) for Selected Summer Crops Based in Mato Grosso</b>							
	Machine Operations	Fertilizer	Herbicides & Fungicides	Other Variable Costs	Fixed Costs	Total Cost Real\$	Total Dollar Cost
<b>Cotton</b>	832	764	1,319	674	579	4,169	<b>1,389</b>
<b>Corn</b>	183	491	302	550	357	1,883	<b>627</b>
<b>Rice</b>	151	575	235	549	314	1,825	<b>608</b>
<b>Edible Beans - PR</b>	195	148	262	504	290	1,399	<b>466</b>
<b>Soybeans</b>	74	341	249	319	310	1,293	<b>431</b>

Source: CONAB

- Based on input prices as of January 30, 2004. Input prices have since increased and it is believed the current cost of production for cotton is U.S\$1,700.

Rice: Rice was a very profitable crop last year due to healthy prices and excellent yields. However, due to current weak domestic demand as a result of the struggling economy coupled with large Brazilian and Mercosul supplies, prices are not expected to be strong at planting. Very high input prices are also likely to lead to a shift to soybeans, especially in Mato Grosso. Furthermore, many producers that planted rice are frustrated that they are unable to sell their crop due to the excessive supply and slow demand.

Corn: Corn is not a major competing summer crop for cotton in the primary production states of Mato Grosso and Bahia, as these states account for only 6% of the Brazilian summer corn crop. Nevertheless, it is not expected that cotton producers will opt to plant corn out of the normal rotation and some may even shift to soybeans. Post believes that the increasing costs for fuel, fertilizer, and chemicals will impact corn more than cotton. Some farmers have reported that planting corn with current input costs and current corn market prices would result in a loss. The bleak outlook for summer corn planting can be seen in low seed sales reported in the Center-West. Corn is a high input cost crop and producers that are willing to pay a large amount for inputs expect a return that only cotton can provide.

As noted above, Post sees only a minimal area shift to soybeans. However, there is no reason to believe that the rate of land coming into cotton production for the first time will slow. In fact, the expansion in Western Bahia may even increase over past years. In Bahia, as in Mato Grosso, lands that came under cultivation just a few years ago are now in a rotation of soybeans and cotton. Meanwhile expansion in Sao Paulo State is expected due to conversion of degraded pasture to cotton.

## Trade

Post has lowered the 2003/04 export forecast from 225,000 tons to 200,000 tons based on the very slow exports of the past few months. Typically, only 30 percent of exports are shipped in the second half of the marketing year but this year exports have slowed even more than normal, mainly due to transportation difficulties. For the first 11 months of the marketing year (August/July) exports totaled 184,000 tons, with Argentina accounting for 22 percent of shipments followed by Japan with 19 percent and Indonesia and China with 10 percent each. Exports for 2004/05 remain unchanged from the previous Post forecast even though production was lowered 100,000 tons to 1.4 million tons. This is due to the fact that exports for the 2004/05 marketing year will nearly all be sourced from the 2003/04 crop

which is forecast to be 48 percent larger than the previous year. Producers and cooperatives that forward sold a few months ago are certainly pleased since prices have dropped since then. It has been reported that as much as 450,000 tons of the crop currently being harvested is contracted for export. Meanwhile more than 200,000 tons have been contracted by the domestic textile industry.

Imports for 2003/04 are raised 30,000 tons to 130,000 tons due to stronger than expected late season imports. The United States has supplied 65 percent of the imports with one month of data remaining in the year. Imports in 2004/05 remain forecast at 100,000 tons despite a crop 150,000 tons larger. The United States is expected to maintain a healthy market share due to the need for imports from January to March, favorable financing terms for imports, and availability of U.S. coarse count cottons for denim production.

### **Biotechnology**

There has much coverage of Brazilian farmers' use of Roundup Ready soybeans but more attention is now being given to use of Bt cotton seed. Recently it was reported in the press that the president of the Brazilian Association of Cotton Producers (ABRAPA, in Portuguese) and the president of the Brazilian Seed Association (ABRASEM) confirmed that transgenic cotton is planted in Brazil but the exact amount and location is not known. It is thought that the contraband seed has come from Australia, which enjoys a similar climate as the Center-West cotton producing states. The cost saving of using transgenic cotton is estimated at US \$150 per hectare and the number of chemical applications is reduced from 14 to 6. Farmers have threatened to follow the example of soybean farmers, and plant cotton seed on a large scale if the government does not approve its use soon. For more information on the current biotechnology situation in Brazil see GAIN report BR 4614.